# Energy Division Staff Analysis and Proposal For Phase 1 Issues in the Provider of Last Resort Proceeding

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## I. INTRODUCTION

This white paper provides an Energy Division (ED) staff analysis and a set of proposals to address the state's reliability needs in the event that a Community Choice Aggregator (CCA) or Energy Service Provider (ESP) fails in a capacity constrained market (Staff Proposal). The Staff Proposal addresses topics based on the Energy Division's proposed framework for Phase 1 of the Provider of Last Resort (POLR) proceeding, Rulemaking (R) 21-03-011:

1. **Continuity of Service:** Evaluate options to help provide the POLR with access to energy resources in the event of a failure of a CCA or ESP during a period of capacity constraints in the market.
2. **Financial Monitoring:** Develop a process to monitor at-risk Community Choice Aggregators (CCA) and manage the risk of issues to mitigate the market impacts of potential defaults through improved situational awareness.
3. **Cost Recovery:** Review the current framework and methodology for Financial Security Requirements and Reentry Fees to consider whether it is sufficient to cover costs of returning customers.
4. **LSE Deregistration Process:** Establish the process to ensure procurement compliance requirements are met.

The purpose of the Staff Proposal is to raise additional options and expand upon proposals in the record of Rulemaking (R.) 21-03-011. This Staff Proposal does not draw any conclusions regarding parties' proposals and comments in response to previous rulings in this proceeding.

**Background**

Senate Bill 520[1] requires the California Public Utilities Commission (CPUC or Commission) to establish requirements concerning the POLR. The legislation identifies the investor-owned utilities (IOU) as the POLR unless a third-party is approved to provide the required services under rules the CPUC may enact. The Commission initiated R.21-03-011 to implement Public Utilities (Pub. Util.) Code Section 387[2] and established two phases of the proceeding: Phase 1 would identify gaps and processes necessary for the (Investor-Owned Utility) IOUs to act as the POLR to ensure continuity of service and the continued advancement of the state's GHG goals. Phase 2 would determine the requirements to enable an alternate entity to the utility to serve as the POLR.

Prior to SB 520, Section 394.25(e) established the requirements for reentry fees to recover the costs of customers that are returned to the utility when a non-IOU Load Serving Entity (LSE) fails:

[1] Adding Pub. Util. Code Section 387
[2] All subsequent section references are to the Pub. Util. Code, unless otherwise specified.

> If a customer of an electric service provider or a community choice aggregator is involuntarily returned to service provided by an electrical corporation, any reentry fee imposed on that customer that the commission deems is necessary to avoid imposing costs on other customers of the electrical corporation shall be the obligation of the electric service provider or a community choice aggregator, except in the case of a customer returned due to default in payment or other contractual obligations or because the customer's contract has expired. As a condition of its registration, an electric service provider or a community choice aggregator shall post a bond or demonstrate insurance sufficient to cover those reentry fees. In the event that an electric service provider becomes insolvent and is unable to discharge its obligation to pay reentry fees, the fees shall be allocated to the returning customers.

Decision (D.) 18-05-022 established the Financial Security Requirement (FSR) and reentry fee requirements for CCAs. The adopted methodology was based on D.11-12-018 and D.13-01-021, which set the FSRs for Electric Service Providers (ESPs). The FSR and reentry fee calculation for ESPs and CCAs diverged in that the CCA FSR methodology includes the incremental costs of procuring energy to meet returning customers' needs, in addition to the administrative costs for returned customers, while ESP FSRs only include administrative costs.[3]

This divergence was adopted because the Commission concluded that ESP customers were informed, sophisticated commercial customers that could opt to switch to another ESP if they chose or could be put on Transitional Bundled Service (TBS) rate if they must be returned to the IOU. Since the TBS rate recovers the actual market cost of procurement, it covers the incremental cost of the returning customers, but it exposes the customer directly to market rates. In D. 18-05-022, the Commission determined that involuntarily returned CCA customers should not be exposed directly to the market price through the TBS rate, but rather would be returned to the IOU's bundled service rate, and the incremental procurement costs should be included in reentry fees.[4]

Resolution E-5059 implemented D.18-05-022, by approving – with modifications -- the IOUs' reentry fee tariffs and establishing the process for collecting reentry fees during the involuntary return of customers to IOU service.

**Phase 1 Framework**

The Energy Division held two workshops to consider the objectives for Phase I and to propose a general framework for establishing requirements for the mass involuntary return of customers to the POLR. The first workshop, held on October 29, 2021, discussed the current policies and process for returning customers to the IOU as the POLR, and identified gaps that needed to be addressed in this proceeding. In the second workshop, held on March 7, 2022, Energy Division proposed the general framework for Phase 1 and solicited party input on options to address the following two new objectives that had not been previously addressed by PU Code 394.25(e) and D.18-05-022, as stated above:

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[3] ESP FSRs include incremental procurement costs for small commercial and residential customers, which represent a small portion of the ESP load.

[4] A customer is involuntarily returned to IOU service when the transfer occurred as a result of the actions of the customer's LSE, and not by the customer's own actions.

1. **Continuity of Service:** Evaluate options to help provide the POLR with access to energy resources in the event of a failure of an LSE during a period of capacity constraints.
2. **Financial Monitoring:** Develop a process to monitor at-risk Community Choice Aggregators (CCA) and manage the risk of issues to mitigate the market impacts of potential defaults through improved situational awareness.

Subsequently, the ALJ issued a ruling on May 2, 2022, soliciting comment on any modifications that were needed to the FSR and reentry fee framework.

The purpose of this ED Staff Proposal is to raise options and considerations for party comment on issues that have not already had the opportunity for party comment. This staff proposal will not draw conclusions regarding parties' proposals and comments in response to previous rulings in this proceeding.

# II. CONTINUITY OF SERVICE

In Energy Division's proposed POLR framework presented at the March 7 workshop, the problem statement provided that the conditions in which LSEs are most likely to fail are during a major, prolonged capacity shortfall. Under these conditions, all LSEs, including those outside of the California Independent System Operator (CAISO) territory, are competing for a limited number of resources, which could lead to price spikes and capacity shortfalls. The workshop agenda and subsequent ruling requested parties to present proposals on actions to ensure that reliability could be maintained under such conditions. Specifically, the ruling requested parties to comment on whether contract clauses, such as a novation or right of first refusal, as explained below, could support the availability of resources for the POLR.

In the current fragmented energy market, Energy Division considers there to be a gap in the ability of the POLR to ensure that reliability is maintained during system peak conditions. With the growth in demand from building and transportation electrification, planned gas and nuclear resource retirements, and increases in costs, maintaining RA from June through September is a growing challenge. These challenges are being addressed through several different policy changes under consideration at the CPUC and California Energy Commission (CEC): the development of backstop procurement program in the Integrates Resources Plan (IRP) proceeding, R. 20-05-003, an increase in the Planning Reserve Margin and implementation of a centralized procurement entity in the Resource Adequacy (RA) proceeding, R.19-11-009. Additionally, SB 846 requires the CPUC to determine whether operations at the Diablo Canyon nuclear power plant should be extended by five years (See A.16-08-006). These topics will not be considered within the POLR proceeding and will be addressed in their respective proceedings.

Meanwhile, Energy Division finds that the POLR proceeding needs to consider the options for managing the financial risk to both the POLR and the LSEs of meeting near-term reliability needs in the event that extreme market conditions lead to a return of customers to the POLR. The problem is twofold: Increasing the FSR to accurately reflect the cost of returning customers could put some CCAs at risk of insolvency, because most of their financial liquidity must be set aside to cover the

FSRs. However, an unexpected return during a stressed market period could threaten the solvency of the POLR itself. The Commission needs to establish a policy to ensure continuity of service that:

1. Minimizes the risk of the POLR's insolvency by avoiding exposure to peak market prices in the six months following the customers' return
2. Minimizes the risk of the CCAs becoming insolvent
3. Protects returning customers from high reentry fees
4. Does not cause cost shifting to bundled customers

Of the four objectives listed here, the risk to the POLR's solvency is the most significant in terms of its overall impact to ratepayer and reliability, and so must be prioritized.

## A. Definition of Transition Period to Avoid Summer Peak Months

To consider the options available, it is first necessary to distinguish between an orderly and emergency customer return. An orderly deregistration might occur because operational costs of serving load have driven up rates above IOU rates, and the CCA is no longer able to remain competitive; whereas an emergency return occurs in the event of a bankruptcy and the CCA becomes insolvent. The two sets of circumstances are likely to be connected: an LSE may need to increase rates due to deficits and contract defaults. For the purpose of this discussion, we will identify an "orderly deregistration" as those when the CCA board determines that it is no longer economic to operate and sets a plan to exit the market, as occurred with Baldwin Park Residential Owned Utility District (BPROUD) in 2021. An emergency deregistration is when a CCA must return customers to the POLR on an accelerated schedule because they are no longer able to remain solvent. Appendix B provides a list of definitions for new terminology developed in this staff proposal.

Energy Division's proposed objective is to set out a proposal for consideration by the Commission to establish policies that mitigate the risk of an emergency deregistration by motivating CCA boards to respond to fiscal needs with timely rate increases and maintain hedging positions that will obviate the need to deregister during peak market conditions. In other words, to the extent that the Commission can minimize the risk that a CCA would return customers to the POLR during the summer months, the lower the forecasted cost of the FSR might be.

While a CCA bankruptcy would necessitate the return of customers on a short schedule that is outside of the CCA's control, an orderly return should be planned with a long enough offramp prior to peak summer months to provide the POLR with time to conduct forward procurement to cover the load.

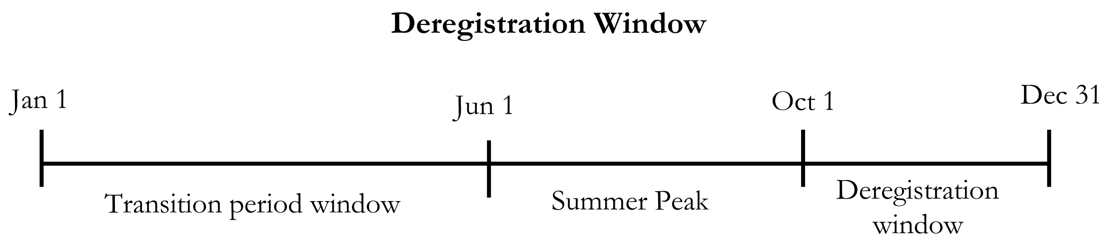
**Energy Division Proposal**

Energy Division proposes to define deregistration and transition periods of customer return in a manner that reflects the ease of transition to the POLR. An orderly transition that incurs minimal cost to returning and bundled customers would require the following characteristics:

- The LSE provides sufficient notice prior to deregistration to enable the POLR to administratively prepare for the transition and to fulfill the LSE's month ahead RA obligations. The Deregistration Period needs to be at least 3 months.
- The six-month Transition Period – the period in which POLR conducts additional procurement and for which reentry fees are calculated – should not occur during the summer peak period. The POLR needs at least six months of advance procurement so that they are not attempting to meet the new load when supply constraints are driving up energy prices.

Therefore, there is an ideal window in which a CCA could deregister and in which minimal incremental procurement costs would be incurred, which Energy Division defines as the Deregistration Window.

**Deregistration Window**




Energy Division proposes to define an orderly transition as meeting the following three criteria.

1) A CCA's Notice of Intent to Deregister (NOI) establishes a Deregistration Period with at least three months between the date the NOI is filed and Deregistration Date (the date the CCA transfers its last customers to the POLR);
2) The Deregistration Date falls within the Deregistration Window of October 1 to December 31; and
3) No customers are transitioned before October 1.

During an orderly transition, the Transition Period may begin on the first day of the month following the filing of the NOI, and the POLR will calculate reentry fees within 30 days of the NOI being filed. This would ensure that the Transition Period ends during the Transition Period Window, before the next year's summer peak period, which means that incremental costs embedded in the re-entry fees will not include peak summer prices. In addition, given that the CCA would still be serving at least some load and meeting RA obligations during a portion of the Transition Period, the reentry fee calculation would not include incremental procurement costs for the period that the CCA continues to serve load.

Energy Division believes that the combined effect of these factors would be to minimize reentry fees, maximize the chance that existing FSRs could entirely cover reentry fees, and minimize the possibility of adverse outcomes for system reliability during the transition. Furthermore, they allow the POLR (as long as the IOU continues to serve as POLR) sufficient time to conduct procurement to meet the returning load, ideally at lower prices than would be attainable during the summer months.

As noted above, the Deregistration Period should be at least three months long, but it could be longer. For example, given that final Year Ahead RA forecasts are due on August 15, a CCA may prefer to issue an NOI before August 15 and reduce its Year Ahead forecast to zero (due to load migration as a result of market exit). As long as the CCA does not actually begin transferring customers to the POLR until after the summer peak months, then the CCA could reduce its reentry fees even further by setting a Deregistration Period longer than three months and thereby serving customers for an even greater portion of the Transition Period (which would begin the month after the NOI is filed).

If a deregistering CCA is not able to undertake an orderly transition by meeting the criteria above, then some portion of its Transition Period will overlap with the summer peak months, and the CCA is unlikely to avoid reentry fees. Appendix A describes how Energy Division proposes that the Deregistration Period and Transition Period be established in those scenarios.

## B. Contract Assignment Options

In the March 7 workshop, Energy Division asked parties to discuss the feasibility of requiring LSEs to include a procurement contract term that would enable resources to be made available to the POLR in the event of an unexpected return of customers. Energy Division identified a few contract clause types:

- Contract assumption: A contract clause that provides, in the case of default, that the POLR must assume the contract.
- Right of First Refusal (ROFR): A contract clause that would require the seller to first offer the contracted-for energy or capacity to the POLR under materially the same terms as were provided for in the original contract with the LSE.

In their comments to the February 24, 2022 ruling and the March 7, 2022 workshop, the IOUs, Alliance for Retail Energy Markets and Direct Access Customer Coalition (AReM/DACC) and California Community Choice Association (CalCCA) expressed concerns regarding mechanisms to transfer LSE contracts to the POLR. CalCCA and the IOUs argued that any assignment clauses that may be incorporated into contracts would not be enforceable in bankruptcy. SCE raised a concern about whether the CPUC has the authority to require LSEs to include assignment clauses in their contracts. Non-IOU LSEs generally have wide autonomy to manage their portfolios and set rates as they wish. CalCCA raised concerns about how the requirement to include any such clauses would adversely affect competitiveness of LSE contract negotiations. CalCCA stated that a required assignment clause would put CCAs at a disadvantage in negotiations with sellers, as compared to IOUs. Sellers could presumably demand a higher price for negotiating away certain rights to re-market the resource. In the case of an assumption clause, SCE argues the exact opposite: With the full credit backing of the IOU, SCE argues the LSEs will be able to negotiate a lower price due to the lower risk of total default. The IOUs also raise the concern that these clauses would make the IOU a counterparty to the CCA contracts. This would make IOUs participants in the contract negotiations of competing market participants.

Energy Division recognizes that the concerns raised by CalCCA and the IOUs may make the contract assignment and ROFR clause requirements infeasible as previously discussed. However, given that a shortfall in resource availability would be the key driver to drive up costs for POLR procurement, Energy Division believes it is worthwhile to further evaluate all options that might help make a deregistering an LSEs' resources available to the POLR. Therefore, Energy Division raises three additional options for resource assignment clauses that would be less restrictive than a standard contract assignment or ROFR clause for parties to consider how they might be used to maintain reliability during the transition.

**Option 1: ROFR Under New Terms**

A ROFR clause that would require that the seller give the POLR the first opportunity to purchase the energy or capacity under contract, but would not obligate the seller to make its offer on the same terms as it had agreed to with the deregistering LSE. There would be no obligation on the part of the POLR or the counterparty to make an agreement if they cannot agree to acceptable terms.

- ***Pros:*** This clause would provide the POLR the opportunity to enter negotiations with the seller before the resource is resold into the market, without obligating the parties to honor the terms of the original contract. This avoids the IOUs' concern that it forces them to be a counterparty to CCAs' procurement contracts and allows the POLR avoid a lengthy RFP process to obtain the resources required to meet the added load. If the POLR can reach an acceptable deal, then the resource is retained while limiting the POLR's exposure to spot market prices.
- ***Cons:*** A clause allowing for renegotiation may not accomplish the goal of managing the POLR's exposure to market power during constrained conditions or shield bundled customers from high prices. If there is a negotiation in a tight market, the seller could exercise market power and drive up the price. Furthermore, it is not clear the clause would be enforceable in bankruptcy.

**Option 2: Short-term Unilateral Contract Assignment**

The seller would be required to offer to continue the contract with the POLR for the transition period. During that period, the costs will be borne by the returning customers. However, the load served by this contract will be deducted from the reentry fees. During the deregistration period, the POLR and the seller are free to negotiate new contract terms, but should nothing be agreed upon, the seller would be free to sell the contract as it sees fit. This clause would be triggered by the seller wishing to cancel the contract with the LSE.

- ***Pros:*** This has the advantage of limiting the overall impact of such a clause on an LSE's ability to compete for contracts, as it would be more palatable to the counterparty. Also, akin to the assumption advantages, the seller should receive some benefit in that the new counterparty will likely be creditworthy. The disincentive for the seller to negotiate such clauses into contracts would be lessened since the clause only covers a limited amount of time. In a tight market with limited resources, a short-term contract assignment could help stabilize the market and avoid saddling customers with high costs.
- ***Cons:*** This clause may not mitigate the concerns that the parties raised regarding a standard contract reassignment clause; it may not be enforceable in bankruptcy, could undermine the CCA's competitive position in contract negotiations, and could make the POLR a counterparty to all of the CCAs' contracts.

**Option 3 Mutual Assignment Clause with Reentry Fee Credit**
Under this approach, if during the deregistration planning process, the LSE, and seller agree to assign a contract to the POLR, and the POLR agrees to assume the contract, the amount of the resource contracted for can be used to offset the reentry fee. In order to secure a credit on the reentry fee, the precise form of the contract clause is not critical. Instead, what is important is that the LSE is able to devise a mechanism that would allow it to transfer – and the POLR to voluntarily accept – procurement that can be used to cover the LSE's former load. Thus, under this approach, the LSE has freedom to decide whether inserting any such clause is in its interest, weighing any cost it may bear in the negotiation process against possible gains during a deregistration event. The FSR/reentry fee calculation is the aggregated net total of potential costs and revenues. It covers potential procurement costs for energy, RA capacity, and Renewable Energy Credits (RECs), with the expectation that revenues will cover the majority of these costs. However, until the LSE fails and must return customers to the POLR, it is unclear what actual procurement the POLR will need to undertake to meet the reliability requirements of the returning customers and what type of procurement might be in short supply with high prices. Therefore, it does not appear feasible for the mutual assignment clause to offset the FSR itself, because it would require the POLR to agree to the contract assignment terms as part of the reentry fee calculation.

- ***Pros:*** Since this option is entirely voluntary for LSEs, it does not create the contract negotiation challenges originally identified by CalCCA and the IOUs. It also allows the LSEs to use their contract quantities to offset their reentry fees, which might be higher than the FSR amount in the event of an emergency deregistration due to insolvency. Further, LSEs would still have the independence to set the terms of their contract and develop their portfolios according to their planning and risk management and consider various contract assignment clauses that might provide their customers with additional protection from potential reentry fees.
- ***Cons:*** Although this system creates an incentive to negotiate ROFR clauses, it is unclear how effective it would be. This option does not address the cost and affordability of FSRs, which are anticipated to increase. If the clause allowed the counterparty the opportunity to renegotiate the terms, it may not provide much value to the POLR in market constrained condition since the contract price would be up for negotiation. Since the CPUC approves IOU contracts, the assignment will likely require Commission approval. A pre-approval of the contract may be necessary so that the energy can be deliverable immediately upon transfer.

**Energy Division Proposal**

Of the three options presented here, Option 3 appears to be the most feasible to implement. It does not force any party into a financial obligation encourages the LSE and its counterparty and the POLR to engage in negotiation during the deregistration period before the resources are released to open bidding in the market.

Regardless of whether any of the above contract mechanisms is required, Staff's central objective is to keep existing energy and capacity contracts within CAISO service territory to ensure the resources continue to be available for system reliability at a reasonable cost. Energy Division Staff seek to provide the opportunity for the POLR to assume the contracts if they are necessary to meet the incremental need of the returning customers. For this reason, Energy Division proposes that the

financial monitoring of at risk CCAs includes tracking of procurement contracts. The deregistration process of any LSE would involve coordination between the LSE and POLR to evaluate the potential transfer of contracts to the POLR.

# III. FINANCIAL MONITORING

Presently, there is no requirement that LSEs provide advance notice if they are in a financial position in which they may imminently default on their procurement contracts, including those needed for electric reliability. As public agencies, CCAs are required by law to publicly post their audited financial statements; however, they are only posted twice a year, and some CCAs do not post these documents until several months after the end of the financial period. Furthermore, LSEs have no obligation to meet with Energy Division when they are at risk of failure. This level of transparency has implications for the entire energy market and system reliability as a whole: an LSE that defaults on its resource payments could leave the system short, triggering downstream impacts for other LSEs. Energy Division believes greater situational awareness is needed for any LSE that is at risk of defaulting on its procurement obligations.

**Energy Division Proposal**

Energy Division proposes that the following conditions would trigger a CCA to be required to meet Financial Risk Monitoring reporting requirements:

- Downgrade below investment grade credit rating, or
- Days Liquidity on Hand (DLOH)[5] is less than 45 days and Debt Service Coverage Ratio falls below 1.0, or
- Cash reserves is below 5% of annual expenses, or
- Default on procurement contract required to meet Resource Adequacy requirements or to the CAISO scheduling coordinator due to non-payment
- Insolvency or bankruptcy.

Energy Division proposes the following new financial reporting requirements for CCAs when they are at risk of failure or default.:

- Within 10 days of the occurrence of any of the above conditions, the LSE shall submit a confidential letter to the Director of Energy Division.
- Meet with Energy Division as requested, up to one meeting per month, and provide the following information:
    - Report energy and hedging contracts for the next six months with term details
    - Status of all procurement contracts, in particular, those at risk of default
    - Provide detailed financial information as requested by the Commission including, but not limited to:
        - Most recent financial statements

[5] DLOH is a standard financial metric used by credit agencies to evaluate a business entity's financial health. It calculates the number of days the entity can keep up with its operating expenses with its available cash on hand.

    - Monthly report of DLOH and Debt service ratios
  - Plan for financial correction and/or market exit.

Energy Division considers these reporting requirements, including the initial notification letter, to necessitate confidential treatment to protect the CCA's market position in securing future procurement. Recently formed CCAs may trigger these reporting requirements more often, as they have not been operating long enough to build up cash reserves.

# IV. POLR COST RECOVERY

As noted above, cost recovery for POLR service is currently implemented through the FSRs and Reentry Fees as were adopted in D.18-05-022, D.11-12-018, and D.13-01-002. The November 23, 2021 ALJ Ruling in this proceeding requested party comment on whether the FSR and reentry fees recovered all types of costs that the POLR was expected to incur, or whether there were additional costs for which the Commission needs to consider cost recovery. In response to this ruling, PG&E identified one additional source of costs: the POLR's access to liquidity and the carrying cost of conducting energy purchases prior to the customer return and collection of revenues.

Notwithstanding the POLR's need for cash liquidity, the only other cost recovery need that parties identified as necessary in this proceeding was modifications to the FSR and reentry fee calculations. In their comments to the ALJ rulings on November 23, 2021 and May 2, 2022, parties presented a list of proposals for modifications to the FSR and reentry fee calculations to improve their accuracy. Energy Division will not reevaluate party positions already presented for Commission consideration. If adopted, it appears that proposed modifications to the FSRs could lead to substantial increases to the FSRs and reentry fees. This section will only discuss topics for which Energy Division is providing an additional option or recommendation that has not previously been raised for discussion.

The proposals below apply specifically to CCAs. In the decisions establishing CCA and ESP requirements, the Commission determined that the requirements to support return of ESP customers differed from that of CCA customers. As such, Energy Division proposes to address ESP FSRs separately in a future decision.

As a guiding principle for evaluating proposed modifications to the FSR methodology, the FSR calculator must balance accuracy with simplicity in calculation to allow transparency and minimize administrative burden. The modifications should also consider whether the seasonal fluctuations accurately reflect the actual potential reentry fees and how to mitigate the financial destabilization caused by FSRs.

## A. POLR Need for Liquidity

In their comments on the May 2, 2022 ruling, PG&E argued that there is a two-month lag between incremental energy procurement and collecting generation rate revenue from returning customers that could leave PG&E short on access to cash needed to purchase energy in the CAISO market, especially if there is a system constraint. PG&E stated that, at a minimum, the CCAs' FSR should cover the first two months of incremental procurement without a revenue offset. Based on the forward energy prices for a given month, this amount may be challenging for CCAs to meet, especially a new CCA that has not built up its cash reserves.

PG&E's recent bankruptcy and resulting credit rating has increased their sensitivity to market exposure and higher borrowing costs. To address this, PG&E proposed that the CCAs create an insurance pool to provide access to cash to cover two months of energy procurement. PG&E proposed that the insurance pool would replace the individual FSR instruments to cover the customers' reentry fees in addition to providing cash liquidity.

Phase 2 of R.21-03-011 is expected to consider whether an alternate entity could serve customers as the POLR for the transition period.[6] If another entity is identified as the POLR, then the question of access to liquidity will need to be addressed with the future POLR entity. Alternatively, the State may need to access a public funding source to finance the POLR during the transition period, which may require new legislation.

Furthermore, ED's proposals to avoid a deregistration transition period during the peak summer months may further lower the need for access to liquidity. While there will continue to be a two-month lag between incremental energy procurement and revenues, the IOU will have begun collecting revenue from the new load during a time with low incremental energy costs and will have the opportunity to adjust their rates during the ERRA forecast to account for the new load.

**Energy Division Proposal**

To the extent the creation of an insurance pool is considered in this proceeding Staff proposes that this issue be considered as part of Phase 2 of this proceeding. In considering whether an insurance pool should or should not be created, the proceeding will need to examine the Commission's authority and options for approval and implementation of such an insurance pool, as well as whether a voluntary or mandatory insurance pool is reasonable and necessary, and if so whether the Commission has authority to create such an instrument or whether statutory authority will be needed. Staff also propose that Phase 2 of the proceeding consider, where IOUs remain in the POLR role and access to liquidity in excess of the FSR is determined to be necessary, whether certain conditions would be required in order to make an insurance pool feasible, such as:

1. A financial entity would need to be identified that is willing and to administer the service
2. Structure that does not rely on remaining CCAs to replenish the insurance pool
3. The IOU/POLR would need to replenish the cash used to finance upfront liquidity.

4. The insurance pool may or may not incorporate the coverage of the FSR/reentry fees. The primary objective is to meet the POLR's liquidity needs, but coverage of the FSR/reenty fees may also be considered.

## B. Overall Cost and Affordability of FSRs

PU Code 394.25 clearly establishes that "as a condition of its registration, an electric service provider or a community choice aggregator shall post a bond or demonstrate insurance sufficient to cover those reentry fees." Thus, a reduction in the FSR to reflect the risk and make the FSR more affordable to CCAs raises the risk of the returning customers being directly exposed to high reentry fees in the event of a CCA return.

As demonstrated by CalCCA's comments in this proceeding, as well as the protests received in response to SCE's Advice Letter 4789-E,[7] affordability of the FSR is a concern among all of the CCAs and is particularly a concern for CCAs in their initial years of operation, prior to their ability to build up cash reserves. This raises the challenge that the CCAs that are new are the most financially vulnerable entities and, thus most in need of a robust FSR, but the least able to provide it. The FSRs need to be adjusted to recover the costs of returning customers more accurately, however, Energy Division proposes a ramping period to be implemented for a CCA to build the cash collateral required for the FSR in their first few years of operation.

**Energy Division Proposal**

Energy Division introduces two proposals for consideration that may be adopted together or separately:

First, Energy Division proposes that CCAs may request a ramping period for any FSRs that are above a certain amount for the first FSR posting due after the issuance of a final decision in Phase 1 of this proceeding. Energy Division also proposes that this transition period be extended to new CCAs.

Second, Energy Division proposes that demonstration of adequate hedging contracts may be used to reduce the FSR, to the extent contracts can be used to reduce the cost of reentry. Specifically, Energy Division proposes the following:

- CCAs need to provide the contracts that demonstrate that they hold fixed priced contracts with a collateralized counterparty to meet at least 80% of their load forecast, and
- Have substantially met their month ahead during the past year and year ahead RA requirements for the following year, in compliance with IRP procurement requirements and
- Are not considered to be at financial risk, as defined in Section III.

[7] SCE submitted AL 4789-E on May 10, 2022 to update the FSR amounts for CCAs. The new FSRs calculated by SCE were many orders of magnitude higher than any previous FSR requirements: they have increased by a factor of over 500. Three representatives of CCAs expressing concerns about the scale of the increase. Energy Division rejected the AL without prejudice, citing General Order 96-B, General Rule 7.6.1, reasoning that the approval of this scale of increase is not a ministerial matter, and must be considered within the POLR proceeding.

The above conditions may allow the Commission to set the FSR assuming winter market conditions, or otherwise apply some kind of discount to the FSR. In cases of severe financial distress, a deregistering LSE may be required to immediately return all of its customers to the POLR. Under such circumstances the reentry fee is highest. By contrast, LSEs that are able to orchestrate an orderly deregistration process, as was done in the case of BPROUD, can eliminate the procurement costs associated with reentry by serving their load through the entirety of the Transition Period. The FSR should account for this variation in potential reentry cost. A combination of a solid hedge position, reliable CPUC compliance record, and overall financial health all serve as indicators of the whether the LSE would be able to execute an orderly deregistration with low reentry costs if the need arises. At this time, Energy Division proposes to set the discount of their calculated reentry fees in excess of the minimum, or to use the FSR calculation based on a calculation in the deregistration window. Energy Division requests that parties comment on the amount that these mitigation measures could reduce the cost of reentry.

## C. True-up of Reentry Fees

D.11-12-018 determined that the reentry fee for ESPs should be calculated within 60 days of the customer return, and D.18-05-022 adopted the same process for CCAs. While D.18-05-022 doesn't explicitly state whether the actual costs should be tracked or the reentry fees should be trued up, the adopted schedule to calculate the reentry fee necessitates forecasting incremental procurement costs rather than tracking actual costs.

In comments, PG&E proposed to establish a balancing account to track the costs and recover all actual costs related to incremental procurement and administrative expenses. SDG&E supports this proposal with the caveat that the balancing account should also track all revenues associated with the POLR service. PG&E's and SDG&E's proposal raises the question of what specific costs and revenues would be tracked in the balancing account and how they would apply to the amount that would be collected from customers for reentry fees. Energy Division identifies a few options for the tracking of costs in the Reentry Fee Balancing Account:

**Option 1: Track all costs and revenues specific to the incremental load**

In this first option, the IOUs would form a balancing account and track the actual incremental cost of serving returned customers, as PG&E and SDG&E proposed. Any net costs would be recovered through reentry fees.

Tracking actual incremental costs will require the IOU to isolate costs and revenues of the returning load, while the load is being met to a certain extent by existing resources in their portfolio. The IOU has a portfolio of resources for which the costs are recovered through a combination of Energy Resource Recovery Account (ERRA), Power Charge Indifference Adjustment (PCIA), and Cost Allocation Mechanism (CAM) revenue, and market revenue for sales of the excess energy and capacity. This portfolio has the available capacity and energy to serve the returned load for many hours of the year, and the IOUs may only need to procure additional energy and capacity in the market for certain hours during the transition period. Procurement costs also include the foregone

revenues for the energy and capacity that the IOU did not sell because it was needed to serve the returned load. The buying and selling of energy and capacity to meet the IOU's need is not only adjusting to the added load from the returning customers, but also to account for the difference between the IOU's actual and forecasted load, the IOU would also need to isolate costs for the change in load resulting from customer return and this realization rate.

**Considerations:**

The benefit of adjusting the reentry fees to reflect actual costs is that customers are charged a more accurate reflection of the costs of their return to IOU POLR service. This adjustment could be a benefit to the returning customers if actual costs are lower than the calculated reentry fee. However, the actual costs and revenues will be challenging to estimate since they are derived from the difference between forecasted incremental bundled load and actual incremental load, which includes other factors besides the returned customers. A broad accounting of all costs and revenues also raises the question of how much tolerance the Commission and IOU serving as the POLR would have for raising the reentry fee for returning customers if actual costs are higher than estimated.

- **Challenge with isolating load, cost and revenue for returning customers:** The incremental cost of serving returned load will be difficult to quantify due to the factors described above. Identifying the difference between incremental load from returning customers and other factors is a counterfactual estimation. Estimating the revenues, lost revenues, as well as additional procurement will be complicated and may not be accurate.

- **Length of Review and Approval Process:** The soonest the POLR would be able to estimate their actual costs would be at the end of the transition period, after the return of customers. However, the process to review and approve the actual costs before reentry fees can be collected from returning customers is likely to be lengthier, especially in the case of a bankruptcy. If the reentry fees were based on actual costs, the bankruptcy litigation would be unable to set a reentry fee claim until the actual costs are resolved, which could delay the bankruptcy proceedings.

- **Potential Litigation Costs:** For return of a small to mid-size CCA to POLR service, the reentry fee could be $5-15 million.[8] The potential cost and effort to litigate this amount would be significant relative to the overall costs to serve customers. This challenge would be compounded if the POLR needs to track and litigate the reentry fees for multiple CCA failures. The cost and complexity of litigating the actual costs of returning customers may be greater than the cost to return customers themselves.

- **Implication of upward and downward price risk**: In the event that the actual costs of returning customers to POLR are higher than the calculated FSR amount, the returning customers would be exposed to an increase in the reentry fees.

[8] This estimate is based on the reentry fees applied to WCE, and other recent advice letters, however, the reentry fees could be significantly greater or lesser, depending on the market prices and methodology adopted in this proceeding.

**Option 2: Track only limited costs and revenues**

The IOUs may alternatively establish a balancing account to track the actual administrative costs incurred during the deregistration process, less the amount collected from the FSR, and taking into account any adjustments made by decisions or claims that occur during the deregistration process. Under this approach, the IOUs would not attempt to calculate the actual procurement costs due to the challenges describe above. However, actual administrative costs could be tracked.

Energy Division Staff believe that administrative costs are more feasible and necessary to track than are procurement costs. The administrative expenditures to implement are specific and incremental; until an IOU manages an involuntary customer return, they lack a basis for estimating the costs. Finally, the administrative costs of the involuntary return are largely concluded following the return of the customers. If the FSR balancing account was to only track limited costs and revenues, they may include costs and adjustments related to the following:

- Amount collected from FSR
- Actual administrative costs
- Adjustments to final reentry fees if deregistration occurs outside of the deregistration window or as determined via resolution, if applicable
- Procurement waivers received by POLR, if applicable
- Adjustments for failure to meet procurement requirements, if applicable
- Bankruptcy claims, if applicable
- Procurement contract agreements between CCA and POLR that adjust the final reentry fee, if applicable
- RPS VAMO resources returned to POLR, if applicable

**Considerations:**

The benefit of a limited tracking is that it sets the reentry fees in a manner consistent with the FSRs, thus limiting the returning customers potential exposure to the market and enables the reentry fee to be set and approved on a timely basis. This approach is consistent with the current process, but with a few additional potential adjustments included.

If the actual procurement costs diverge significantly from the costs forecasted in the reentry fees, the impact of cost shifting on to bundle customers will vary by IOU. For example, the cost shifting onto San Diego Gas and Electric (SDG&E) bundled customers could be significant if San Diego Community Power (SDCP) were to return customers to the POLR, since SDCP currently serves 49% of the load in SDG&E's territory.[9]

[9] Based on the California Energy Commission's 2022 Integrated Energy Policy Report Demand Forecast

**Energy Division Proposal**

Energy Division proposes that the IOUs create a balancing account to track adjustments to the reentry fee rather than tracking actual costs. Energy Division considers the risks created by tracking all procurement costs to outweigh the risks of cost shifting that could arise from the discrepancy between actual and calculated reentry fees. In some cases, the cost associated with tracking and verifying actual reentry costs could exceed the amount to be recovered from the deregistering LSE, a highly inefficient result.

# V. DEREGISTRATION PROCESS

Energy Division has developed a deregistration checklist to clarify the process by which an LSE informs the Commission of its schedule for deregistration and confirms that the LSE has completed its procurement requirements. This process has been defined by the existing reporting and procurement rules and requirements, which still apply up to the date that the LSE ceases operations. The procurement and reporting rules established in the IRP (R.20-05-003), RA (R. 19-11-009), RPS (R.18-07-003) and Smart Grid (R.08.-12-009) proceedings are not subject to consideration in this proceeding.

Consistent with the proposals in this document, Energy Division proposes the following clarifications to the existing rules:

- The deregistration process is defined with certain requirements that can only be met by an LSE that remains solvent. In the event that an LSE becomes insolvent, the obligations, costs and potential penalties may be identified as potential claims.
- IOUs need to have access to the FSR immediately in order to ensure they have the liquidity available and that the Letter of Credit does not expire. Therefore, the POLR shall draw upon the FSR prior to the Advice Letter approval, regardless of a protest, and deposit the funds into a balancing account. Any over-drafting of the FSR shall be reimbursed to the CCA (or participating municipalities) upon Commission approval of the second advice letter, regarding reentry fee collection.
- Six-month Transition Period begins on the first day of the month following the Energy Division's confirmation of receipt of the notice of intent to deregister for an orderly deregistration. Otherwise, the Transition Period begins upon deregistration.
- All CCA customers must be directly notified by the associated CCA in the event of a deregistration and involuntary return to the POLR.

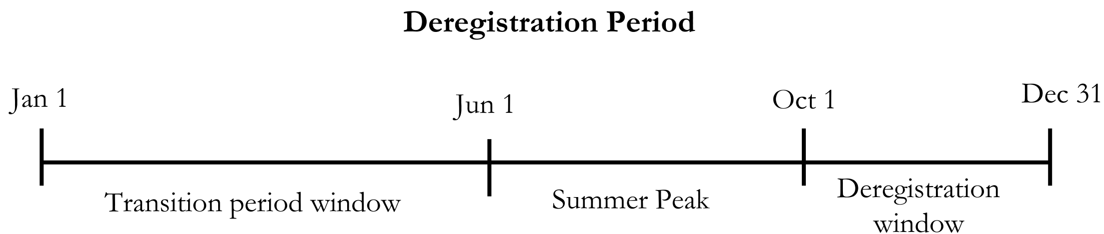
In Resolution E-5059, the Commission stated that any disputed costs included in the reentry fees would be reviewed within the POLR rulemaking. Energy Division proposes that the disputed costs should be addressed via resolution, since the Rulemaking would not have the deregistration of an individual CCA included in its scope to enable timely decisions.

# APPENDIX A: Deregistration Checklist

This document serves as a procedural checklist for Load Serving Entities (LSEs) operating in California to outline the steps they need to take to safely deregister and return customers to the Provider of Last Resort (POLR) while maintaining compliance with all CPUC programs.

All steps in the process will apply to both Community Choice Aggregators (CCA) and Electric Service Providers (ESP) if they must initiate an involuntary return of customers to the POLR. If an ESP deregisters but their customers all transfer to other non-POLR LSEs, the ESP is only required to implement the steps as indicated below. See Appendix B for definitions of terms used in this checklist.

**Deregistration Period**




## 1. Initial Consultation with Energy Division

The CCA or ESP should informally notify Energy Division staff as early as possible if the LSE is considering deregistration. Unless bankruptcy is imminent, the LSE should plan to deregister during the October 1 through December 31 Deregistration Window. An LSE must provide at least 3 months' Notice of Intent to Deregister for an orderly transition. If the LSE provides 6 months' notice and deregisters during the Deregistration Window identified in the figure above, the LSE will include minimal reentry fees because the LSE will be serving load for the majority of the Transition Period.

## 2. LSE and POLR Coordination

The deregistering CCA or ESP shall coordinate with the POLR to determine most appropriate schedule for return of customers with specific regards to:

- The month in which Resource Adequacy (RA) obligations will be transferred to the POLR.
- Scheduling for customer transfer into the POLR billing system.
- Date of transfer to the POLR's scheduling coordinator.

The deregistering LSE and the POLR should continue to coordinate throughout the Deregistration Period to determine the following:

- Whether to suspend voluntary returns during the Deregistration Period, to protect customers from market rate exposure from returning on the Transitional Bundled Service rate.

- If any of the LSE procurement contracts (to meet energy, RA, Integrated Resource Planning (IRP) or Renewable Portfolio Standard (RPS) obligations) should be assigned to the POLR.

### 3. Notice of Intent to Deregister

For an orderly economic deregistration, the LSE shall submit their Notice of Intent to Deregister at least 3 months prior to the Deregistration Date, which must occur during the October 1 through December 31 Deregistration Window.

- Under an orderly deregistration schedule, the six-month Transition Period beings the first day of the following month. As a result, the Deregistration Period and Transition Period may have substantial overlap, which would help minimize reentry fees because the LSE will continue serving load and meeting RA requirements for a portion of the Transition Period.
- If for financial reasons, the CCA is unable to deregister by December 31 with at least three months' notice, then the LSE must continue to provide at least three months' notice prior to Deregistration, and the Transition Period shall begin upon deregistration.
- If the LSE deregisters during the summer peak period, the transition period begins upon Deregistration.

After the LSE and POLR have agreed to a timeline for returning all customers to the POLR and the official Deregistration Date for the LSE, then the deregistering LSE must submit a Notice of Intent to Deregister Letter to the CPUC. This Notice must be emailed to the Deputy Executive Director of Energy Division and issued to the dockets of proceedings in which they have compliance obligations, including RA, IRP, and RPS.

*Applies to ESPs if they have any current RA, IRP or RPS obligations, regardless of customer return to the POLR.*

### 4. POLR files Advice Letter (AL) to set Reentry Fees

The POLR shall file a Tier 1 AL within 30 days following the Notice of Intent to Deregister, with an initial estimate of reentry fees. Reentry fees shall be calculated based on the following:

- If the LSE is following an orderly deregistration schedule, then the Transition Period (for which reentry fees are calculated) shall begin on the first day of the month following the submission of the Notice of Intent to Deregister.
- If the LSE is not following an orderly deregistration schedule, then they will be subject to the reentry fees, which the POLR may collect immediately upon calculating them (within 30 days of the NOI) and which will be updated with final amounts in the final advice letter in Step 13.

*Steps 4-6 only apply to an ESP if customers need to be involuntarily returned to the POLR.*

### 5. LSE informs POLR of Payment Plan for Reentry Fees

Within 15 days of the POLR's AL submission to establish the reentry fees, the deregistering LSE will inform the POLR how it will pay the reentry fees. Unless the LSE states that it will directly pay

the reentry fees, the POLR shall first draw upon the financial security requirement (FSR) to cover the reentry fees. After the POLR has used the FSR, any remaining uncollected costs will be collected as a reentry fee to customers, as further discussed in step 13 below.

### 6. POLR Collects Funds from LSE

The POLR shall collect the reentry fees immediately, even if the LSE files a protest. The POLR can still draw upon the FSR to collect initial reentry fees immediately to meet liquidity requirements, or according to the deregistering LSEs' preferred payment plan.

- POLR shall enter the FSR funds into a balancing (or memorandum) account and track adjustments to the reentry fee expenses.
- At the end of the transition period, any overcollection shall be reimbursed to the LSE, or undercollection shall be either collected from the LSE or directly from the returning customers if the LSE is unable to pay.

### 7. Customer Notification

The deregistering LSE shall consult with Energy Division and coordinate with the POLR to develop and implement a customer notification plan, during the Deregistration Period. The customer notification plan must include:

- An approach to directly contact all customers.
- Coordinate responses for both POLR and CCA call centers. They should demonstrate how they have prepared adequate resources for concerned customers.
- Prepare a coordinated message for media outreach and press inquiries with POLR and Energy Division.

### 8. LSE files Notice of Transfer of RA obligations to POLR

The LSE is responsible for meeting RA requirements, up through their Deregistration Date, as posted in the most up to date RA filing requirements guide:[10] *(Applies to any ESP that has served load in the previous 18 months regardless of customer return to POLR.)*

- LSEs must meet their Year-Ahead (YA) RA requirement that applies up to the period of deregistration.
    - The LSE must update their load forecast to zero load by the August RA deadline to be relieved of the YA RA requirement for the following year.
    - If the LSE submits a Notice of Intent to Deregister following this deadline, the LSE is obligated to meet its YA obligations for the following year. The LSE may negotiate a transition plan with the POLR that enables the most efficient manner to avoid collective deficiency in the CAISO system, which may include a transfer of LSE RA contracts to the POLR following deregistration, an extended deregistration schedule, or a negotiated agreement to cover procurement periods.

[10] 2023 RA Filing Guide can be found at: final-2023-ra-guide-clean-93022.pdf (ca.gov)

  - If the LSE and POLR are unable to reach an agreement to meet the RA obligations, then the obligation lies with the deregistering LSE. To the extent that that the LSE is unable to meet the RA obligation, the RA cost will be applied to reentry fees.
- The deregistering LSE is obligated to meet Month-Ahead (MA) RA obligations and filing requirements up until the compliance month of the date that the LSE ceases operations:
  - The deregistering LSE must file a revised MA load forecast showing a zero-load forecast 75 days prior to the beginning of the compliance month in which the LSE has zero customers and ceases operations.
  - LSEs shall continue to file any load forecasts and compliance filings that are due during their Deregistration Period, unless the POLR agreed to take on those filing and compliance requirements on behalf of the LSE in step 2 of the deregistration process.
- The LSE shall submit a compliance filing to the RA docket confirming the Deregistration Date and proposing a transition plan for meeting RA obligations.

Penalties & Waivers Process:

- A deregistering LSE is subject to penalties for uncured deficiencies for obligations up to the Deregistration Date. If the LSE files for bankruptcy, penalties could be considered an unsecured claim.
- Beginning with the 2020 Year Ahead filing process, the deregistering LSE shall submit any local RA waiver requests via a Tier 2 Advice Letter to the service list (in redacted form, if necessary) of the RA proceeding open at the time of the request.

**9. POLR Submits RA Filings to Assume Load of Returned Customers**

The POLR will need to refile their RA load forecast(s) to include the load of the returning customers.

- POLR may submit a request for RA Waiver through a Tier 2 Advice Letter. POLR may be eligible for a limited system or flexible RA waiver for instances in which retail load is:
  (a) returned to the POLR with insufficient time to meet the RA requirement, or
  (b) not transferred from the POLR to another LSE as planned as a result of action or inaction by the LSE.

  The POLR waiver process is effective immediately.

**10. LSE files Notice of Transfer of IRP obligations to POLR**

LSE must take the following steps to ensure they continue to meet their IRP compliance obligations: *(Applies to any ESP that has been assigned IRP obligations regardless of customer return to POLR.)*

- LSEs must continue to meet their IRP procurement requirements during the Deregistration Period. If they are financially unable to meet their obligations, a backstop procurement order may be initiated, and the LSE may be subject to penalties.

- LSE shall submit a transition plan filing on the IRP docket to notify the Commission of their progress toward meeting procurement obligations, all contract sales, transfers of contracts to other LSEs and any project defaults, and progress toward preparing and submitting any upcoming IRP filings, including any filing re-submission requests that may have been issued by Energy Division staff.
- The deregistering LSE must continue to submit any filings that are due during the LSE's Deregistration Period. The LSE may coordinate with Energy Division to determine the specific information needed in the required filings during the Deregistration Period or whether to submit a request the requirement to be waived. Filings include:
  - Individual IRP Plans
  - IRP Procurement Compliance Filings and Data Requests
  - Any other data requests or filing re-submissions issued by IRP staff

Penalties and Waivers

- Energy Division will review the transition plan and determine whether the POLR needs to conduct backstop procurement.
- Issues regarding the backstop procurement and cost recovery in the event of customer return to POLR are currently in scope of the IRP proceeding, and thus the IRP procurement process may be subject to change if warranted.

### 11. LSE Continues to File Annual and Final RPS Compliance Reports

The deregistering LSE must meet its RPS obligation through the period in which it operates. However, since the RPS program has multi-year compliance period requirements that must be reviewed at the conclusion of the period, the LSE will continue to have compliance filing obligations for the remaining years of the Compliance Period in which they served load. The California Energy Commission (CEC) will conduct the RPS claims verification after the end of the compliance period. After the CEC completes its verification, the CPUC will be able to make a compliance determination for the compliance period and then penalize for any RPS deficiencies. The LSE, including member cities of a deregistered CCA may be subject to penalties in the event of RPS deficiencies. *(Applies to ESPs regardless of customer return to POLR.)*

The LSE must submit the following:

- **Annual RPS Compliance Reports:** The LSE shall continue to submit Annual RPS Compliance Reports for each year of the final compliance period in which they served load (e.g. file reports in 2023, 2024, and 2025 for load served in 2021-2022)
  - The LSE must submit full reports for every year that the LSE served load, including the year in which they deregistered. Report shall identify the date in which the LSE ceased to serve load.
  - For all subsequent annual RPS Compliance reports, a representative on behalf of the deregistered LSE may submit abbreviated reports stating that the LSE has not served load for the previous year.
- **Final RPS Compliance Report:** After the CEC completes its Compliance Period verification, a representative on behalf of the deregistered LSE shall file a final RPS compliance report within 30 days.

Penalties and Waivers Process:

- If the CPUC final compliance review determines that the LSE has not satisfied their RPS obligations, then the LSE may be subject to RPS penalties.
- The POLR may request a waiver for RPS requirements after the CEC has conducted its RPS claims verification, however P.U. Code 399.15(b)(5) defining circumstances that permit waivers does not address conditions of unexpected load migration

**12. LSE Customer Privacy Requirements during Deregistration**

The deregistering LSE must meet their Customer Data Privacy compliance obligations in the Smart Grid Rulemaking Proceeding (R.) 08-12-009 for the years in which they serve load. There are two compliance obligations:

- Annual Data Privacy Report.
- Triannual Independent Data Privacy and Security Practice Audit.

Both audits are due April 30th the following calendar year that the LSE served load. Because LSEs can deregister any time during the year, ED staff recommends that the LSE must file its Annual Data Privacy Report before deregistering. The LSE may file the report prior to its deregistration. Requests for exemption may be considered.

**13. POLR files Advice Letter to set Final Reentry Fee Collection or Reimbursement if needed**

The POLR shall file a second AL to set the final reentry fee collection or reimbursement if the reentry fees are greater or less than the original amount collected from the FSR or alternate payment plan. Adjustment to final collection or reimbursement may result from:

- FSR is insufficient to cover the cost of the reentry fees, and difference must be collected directly from returning customers
- Original AL is protested and modified by resolution or disposition
- Other adjustments are necessary to the final incremental cost of reentry fees resulting from bankruptcy claims, adjustments to incremental costs or other factors approved by Commission

**14. Letter Confirming LSE Deregistration**

At the end of the deregistration process, the LSE shall send a letter to CPUC Energy Division's Deputy Executive Director confirming the dates all of the compliance obligations listed above have been met. With this letter, the Energy Division will issue a letter to confirm that the LSE is deregistered and that all obligations, with the exception of RPS ongoing compliance period requirements, have been met.

# APPENDIX B: Definition of Terms

**Deregistration Date**—The date upon which the LSE ceases to serve load and transfers its final remaining customers to the POLR.

**Notice of Intent to Deregister**—The notice filed to the service list that establishes the date of the CCA's deregistration.

**Orderly Deregistration**—An LSE determines that it is no longer economic to operate and sets a plan to exit the market, following the schedule set by the Commission.

**Emergency Deregistration**-- An LSE must return customers to the POLR on an accelerated schedule because they are no longer able to remain solvent.

**Deregistration Period**—The period from when the CCA issues a Notice of Intent to Deregister and the date of their actual deregistration

**Deregistration Window**—The time period from October 1 to December 31 when a LSE should plan to exit the market under an orderly deregistration

**Transition Period**—The six-month period that the reentry fees are expected to cover. With an orderly deregistration for which the POLR will have additional time to procure for the summer peak period, the transition period may begin while the CCA is still in operation.

**Transition Period Window**—The period that provides a 6 month transition period prior to summer peak season in an orderly deregistration.

**(End of Attachment A)**